



SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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China-Russia Relations: Can "Bamboo and Pine Trees" Grow Together?

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Executive Summary

- China and Russia are now led by pragmatic leaders who focus on domestic economic growth and political stability. But, it is unclear whether this harmony in national goals and principles can override long-standing mutual suspicions and overcome a cacophony of contradictory domestic interests.
- Despite intensifying Sino-Russian political consultations and military-to-military relations, fears about the "Yellow Peril" in Russia and "Red Heat" inside China still persist particularly in the respective national security establishments.
- Sino-Russian "reluctant" economic cooperation lags far behind the two nations' political declarations about "strategic partnership." Notwithstanding tremendous long-term potential, the promises of bilateral trade and investment cooperation in the oil and gas sectors, heavy industries, banking, and even transportation still remain unfulfilled.
- Internationally, China and Russia find themselves in an asymmetrical relationship with their strategic roles reversed from the Cold War days. A rising China intensifies its regional proactive diplomacy, partly aimed at countering America's global activism, while a retrenching Russia pursues a minimalist passive-reactive policy in world affairs, by and large, accommodative of U.S. interests.
- If Chairman Hu Jintao and President Putin get along, "Chinese bamboos" and "Russian pine trees" may indeed be able to grow peacefully and blossom together even in Uncle Sam's global "hothouse."

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HARMONY OF BASIC GOALS, BUT WHAT MORE?

Sino-Russian relations have witnessed peaks, precipices, and valleys. They oscillated from communist alliance in the 1950s to a bitter ideological split and cross-border hostilities between the 1960s and 1980s to normal state-to-state relations in the 1990s. They avoided war but not profound disagreements. Whether Russia and China can give substance to their mutually stated “strategic partnership” is an open question.

Both countries, led by a new generation of Westernized pragmatic leaders, now focus on domestic economic growth and political stability, and their relations in part emanate from these priorities. Although Moscow and Beijing strive to recover national unity as well as rebuild national power and international prestige through either reintegration of the near abroad or “the reunification of the motherland,” they seem to shy away from the more aggressive goals of “liberal empire-building” and “restoration of the middle kingdom” or more menacing designs of building a protectionist “fortress Russia” or “fortress China.”

The strategic partnership is designed to lean on each other’s shoulders in the international arena in order to avoid war and grow together in peace. They both support the often-stated principles of multipolarity, the United Nations (UN)-centered international order, strategic arms control, primacy of state sovereignty and noninterference in domestic affairs, especially in the Chechen and Taiwan issues. Since September 11, 2001, the original implicit anti-American flavor of the strategic partnership has been toned down. Now Moscow and Beijing are both part of the U.S.-led international coalition fighting against global terrorism, separatism, and religious extremism particularly in Central Asia. But beyond this, how many common political, military, national security, and economic interests do they really share in practice?

MILITARY SECURITY AND DIE-HARD MUTUAL SUSPICIONS

The dissolution of the Soviet Union in 1991 and dramatic rise of China in the past decade have fundamentally changed the balance of power and influence between the two neighbors. Russia’s newly abridged state is barely capable of suppressing a domestic insurgency in Chechnya. Its underperforming military of 1.2 million men is saddled with funding, discipline, resource, and training problems. Guarding the 4,300 km border with 1.4 billion men, China is a challenge. Russia’s once-feared tank armadas are rusting in the partially abandoned military bases scattered around Siberia and the Far East. Russia’s margin of military-strategic immunity vis-à-vis China has shrunk substantially. Hence, any planning of offensive military operations or preemptive warfare is no longer possible. Strategic nuclear deterrence under the officially lowered nuclear threshold, defensive planning, and full-court mining of the border in the absence of manpower to guard it appear to be the only viable options available to Russian military planners if ever confronted with a potentially reassertive nationalist China.

In order to placate the Chinese military leadership and persuade it that Moscow has no aggressive intentions toward Beijing, for the past decade Russia has been selling large quantities of all sorts of advanced weapons and military equipment to its former enemy (valued on average at \$1.5-\$2 billion per year). Some Russian nationalists regard Russian sales to China of sophisticated and underpriced weapons systems and technologies as appeasement or “bribery” designed to mollify the Chinese military’s thirst for military modernization at a time when China is under a Western arms embargo. To be sure,

profitable Russian arms sales also help rebuild and modernize the Russian defense industrial complex, and bring in badly needed hard currency from China, which boasts one of the largest foreign exchange reserves in the world. The Russian military argues that the military equipment and technologies transferred to China are still at least one generation behind their respective counterparts in the Russian armed forces and, therefore, Moscow still enjoys a large "margin of preponderance" over China. In addition, they are meant to generate additional political capital for Moscow in Beijing to be redeemed at the time of a crisis. In the worst case scenario—should China ever decide to use these sophisticated weapons—the hope in Moscow is that the People's Liberation Army (PLA) would rely on the Russian arms in its military operations in the southern and southeastern directions rather than along its northern frontier.

Russian optimists ("China enthusiasts"), mostly concentrated in Moscow rather than the Russian Far East (RFE), argue that during the era of *xiaokang* ("small well-being"), China's current leadership is mostly preoccupied with maintaining domestic stability and traditional order under the pressure of rapid technical modernization and economic growth rather than with external expansion or reordering of the international status quo. "Prosperous tranquility of the golden middle" appears to be their paramount desire. These analysts generally do not foresee any potential Chinese expansion affecting Russia directly and call for strong ties with China. In the Siberian permafrost and the underdeveloped RFE, the climate is too cold, distances are too long, population too unruly, and production costs too high for the Chinese to invest or resettle en masse voluntarily, much less expand into the area by force. If anything, since time immemorial China has tried to protect its northern frontier from barbarian invasions by building the Great Wall of China under the Emperor Qin Shihuan, raising the Genghis Khan Rampart, and constructing the engineering fortifications of the Beijing defensive line under Mao Zedong. These Russian analysts continue to believe that China will focus on expanding its presence, influence, and role toward the south in the direction of warmer seas in Southeast Asia and the Pacific, where large population centers, cultural affinities, and rich markets beckon, as it has been doing relentlessly for centuries.

However, Russian pessimists ("China hedgers") especially those residing in Siberia and Pacific Russia in the Far East, stress Russia's vulnerability to China's demographic pressures and point to China's modern historical pattern of the use of military force outside its territorial boundaries including: the Korean War (1950-53); India 1962; USSR 1969; the Paracels Islands 1974; Vietnam 1979; Spratley Islands 1988; and the Taiwan Straits 1996. They warn that in the future, one cannot rule out a localized use of Chinese military force outside and along its national borders in order to humiliate and undermine any uncooperative neighboring government, or to derail the neighbor's economy in the interests of China or even a local Chinese community. The Chinese seem to consider such punitive, limited use of force "to teach a lesson" as legitimate, acceptable, just, and effective. In the words of Sui Guanui, a leading Chinese defense thinker, it "blocks the quantitative accumulation of sharp contradictions, thereby preventing the escalation of tensions into a large-scale war."

In its threat assessment titled "On Main Directions of Maintaining National Security in the Far Eastern Federal District" and submitted for consideration at the Russian National Security Council on November 27, 2002, the Russian General Staff stated that the Far Eastern strategic direction is not likely to be subject to "a threat of armed foreign invasion in the next ten to fifteen years," but allowed for the possibility of a "growing military threat from abroad, as China's combined national power continues to amass in the years to come." In 2002, the Russian armed forces reportedly conducted major staff and

field exercises in Eastern Siberia. The intent was to refine contingency plans in response to a simulated large-scale Chinese invasion of Eastern Siberia based on a hypothetical border clash that escalated into a regional war as a result of strategic deterrence failure. The Siberian and Far Eastern military districts, which are responsible for the defense of the Russian territory in question, are said to have lost the war game to their phantom foreign enemy in the just-described scenario.

Furthermore, the new Ivanov doctrine, which is named after its author, Russian Defense Minister Sergei Ivanov, and was published by the Russian Ministry of Defense in late 2003, emphasizes strategic deterrence of a regional war as “the number one priority for the forces of constant combat readiness in the Far Eastern strategic direction,” followed by strategic deterrence of a large-scale war and participation in border conflicts. This doctrinal evolution suggests that Moscow no longer plans offensive military operations against China, as it did in the 1960s-1980s; instead, it is preoccupied with defensive planning and homeland security against the background of fluctuating China threat perceptions reinforced by strong xenophobia and anti-Chinese sentiment among local population in the RFE.

Clearly, the Russian and Chinese militaries still harbor residual suspicions about their long-term mutual intentions, especially in the border areas, despite the much hailed strategic partnership; the border delimitation, demarcation, and demilitarization agreements of the 1990s; regular high-level consultations between the Russian and Chinese ministries of defense, general staffs, and local commands; military-to-military educational exchanges; and promising Russian-Chinese cooperation within the framework of the Shanghai Cooperation Organization (SCO). That is why Moscow rejected Beijing’s offer of joint border patrolling in 2003 though it lacks the manpower and resources to accomplish that on its own. Also, the Russian government still refuses to allow the construction of the narrow gauge 80 km railway between the Hunchun/Kraskino border crossing point and the RFE port of Zarubino via the Ussuri Region, which could give China direct access to the Pacific Ocean. Amidst both militaries’ soul-searching, the ghosts of the “Yellow Peril” in Moscow still clash occasionally with the ghosts of the “Red Heat” in Beijing.

ECONOMIC COOPERATION, ENERGY SECURITY, AND WTO CONCERNS

After a period of stagnation in the second half of the 1990s, Sino-Russian bilateral trade had increased from \$5.72 billion in 1999 to about \$16 billion in 2003. Russia’s accumulated trade surplus for 1999-2003 had reached almost \$21.5 billion. Although \$15.7 billion is a record level for the bilateral trade, all Russian and Chinese players are still dissatisfied with the current state of economic cooperation. The “maximalists” believe that because of the huge economic potential, complimentary structure, and rapid growth of both economies, the desirable bilateral trade volume should be around \$100 billion on par with China’s trade with other great powers, i.e., Japan and the United States. The “minimalists” handicap the attainable annual trade turnover at \$20 billion and blame a variety of reasons: the arbitrary and obscure terms of trade; impeded market access; mono-product dependencies; market externalities in bilateral trade; increased level of foreign competition; influential domestic protectionist lobbying; poor record of mutual investment cooperation; growing trade imbalance; and overall limited export opportunities for both nations because of their respective strategies of import substitution. The “golden middle” experts speculate that Sino-Russian trade may quadruple and reach an estimated \$40 billion by 2020, assuming that the People’s Republic of China’s (PRC) gross national

product (GNP) quadruples by 2020 and the Russian economy grows at 7-8 percent per year for the next fifteen years. In other words, expectations are high but still remain far from reach despite emerging positive trends in bilateral trade.

Other areas of economic cooperation have been less successful. Investment cooperation and joint development of infrastructure have generally fared poorly with the exception of Russian participation in the construction of the first energy bloc of the Tianwan Atomic Energy Station in Liangyungang due for commissioning in October 2004. Political declarations about strategic partnership and intergovernmental agreements to promote bilateral trade did not help the Russian EnergoMashExport corporation prevail in China's government-sponsored international tender in the Three Gorges project. The project consisted of building a huge cascade of hydroelectric power stations on the Yangtse River in the second half of the 1990s. The Russian company lost the main tender and all contracts to Western competitors despite its lowest and most cost-efficient bid; the official protestations of the Russian Embassy in Beijing; minister-level lobbying for the Russian interests in the bilateral intergovernmental commission; and even a few personal telephone calls by Prime Minister Chernomyrdin to his Chinese counterpart. The Russian electric machine-building industry did not get a single subcontract to provide the simplest turbine and did not make a penny in the Three Gorges project. In the words of a mid-ranking Russian government insider who was intimately involved in Sino-Russian negotiations on this matter, "The Chinese heart proved to be unresponsive to the Russian appeals to the 'shared goals and values' of the strategic partnership; instead, once again it demonstrated 'despise for the weak' and 'respect for the strong and powerful.'"

In general, deliveries of Russian civilian machinery and machine equipment (which represented a 20.1 percent share of all Russian exports to China in 2002) are steadily declining and are of a one-time nature, despite China's drive to modernize its rusting industrial belt in the northeast and its strategy of accelerated development in the western regions. Due to the growing supply of better and cheaper equipment from other advanced countries, China appears to lean less and less on Russian equipment and industrial technology just as its need for such goods increase enormously.

Also, considerations of strategic partnership did not appear compelling in Beijing when China decided to retool its civilian aircraft fleet entirely with Western-built airplanes. The Chinese government spent billions of U.S. dollars to buy three dozen U.S. Boeing 737 aircraft and billions of euros to purchase European Airbus A-300s while agreeing (under heavy pressure from the Kremlin) to procure just five of the newest Russian TU-204 aircraft (three for postal deliveries) valued at \$150 million each.

It is obvious that no breakthrough in bilateral trade will be possible without the initiation of large-scale deliveries of Russian hydrocarbon fuels to China. But all three large-scale projects for the delivery of oil and natural gas from Russia to China, which have been thoroughly studied since the early 1990s, are still on the drawing board and seem to be headed nowhere, due to the latent clashes of important national interests and incessant opposition from influential domestic and foreign players.

The Angarsk-Daqing 2,400 km oil pipeline project (capable of transporting 25-30 million tons of crude oil per year for twenty-five years from the Yukos-controlled Tomsk oil fields, which need \$1.7 billion for construction/can generate more than \$6 billion in additional Russian exports to China) appears to have fallen victim to the global fight for long-term oil supplies and regional power struggles. The following difficulties are just the tip of the iceberg of sharp Sino-Russian disagreements regarding the oil pipeline project: central government manipulations with projections of available oil deposits for internal consumption and exports to the Asian-Pacific Region; Japan's alternative offer of \$6-\$7

billion to build an Angarsk-Nakhodka 4,300 km oil pipeline; local lobbying for the domestic routing of the oil pipeline across all RFE provinces; the infamous Yukos affair and reluctance of other private Russian oil companies to get involved in the Sino-Russian oil business; and differences over ecological impact assessments.

The fundamental reality is that both nations find themselves on opposite sides in the global fight for shrinking oil resources despite China's strong interest in securing a stable and predictable channel of long-term crude oil supplies and Russia's serious interest in diversifying its oil export markets away from Western Europe. As a global oil exporter, Russia benefits from rising world oil prices, which obviously will hurt China as the world's second largest oil importer. Many Russian experts believe that China needs the Angarsk-Daqing oil pipeline in order to create its own independent strategic oil reserves by pumping cheap Siberian crude oil into its own now-exhausted oil fields in the Daqing area. If that is the case, Moscow may be reluctant to satisfy Beijing's immediate thirst for energy and help Beijing establish an energy safety net, since such Chinese flexibility of maneuver may hurt Russian ability to unilaterally dictate oil prices in the future. Moreover, as a precondition for investing billions of U.S. dollars in the construction of the oil pipeline, the Chinese government wants to fix the long-term per barrel price of Russian crude oil to China in the \$18-\$20 range for the next twenty-five years. Expecting global oil prices to rise in decades to come, the Russian government prefers to wait for a higher long-term price fixed at \$32-\$35 or even better, while contemplating a move to spot market pricing in the long run. Tens of billions of U.S. dollars in future oil revenues are at stake in this negotiation. Moscow believes time is on its side, whereas Beijing loses patience and accuses its counterpart of stalling, price gouging, and insincerity. Obviously, the lack of cooperation in the oil sector undermines the spirit of strategic partnership from China's point of view.

Beijing tends to interpret Moscow's indecision on oil as being unfriendly and a sign of Russia's intention to constrict China's economic growth by choking its future energy supplies. In response, the Chinese government seems to have decided to largely exclude Russian participation from its long-term project of gasification of China's huge residential and industrial markets. Despite all intergovernmental agreements and intensive personal lobbying by senior government officials, the Russian government-owned gas monopoly Gasprom lost its bid in the Chinese government-sponsored tender to provide equipment and build the largest 4,200 km gas pipeline from Xinjiang to Shanghai that will cross the entire Chinese mainland from east to west. The \$14 billion project went entirely to the Western and Chinese companies and their subcontractors.

Moreover, major Chinese oil and gas concerns have demonstrated increasing reluctance to invest in the construction of two gas pipelines in Russia, earlier agreed upon with Russian corporations Sidanko and Gasprom more than ten years ago—one from Irkutsk Region's Kovyktinsk gas fields to Northeast China with an outlet to the Republic of Korea (ROK) and the other from the Chayandinsk gas field in the Yakutia-Sakha Republic to Northeast China. Obviously, neither oil nor gas can fuel the much-touted Sino-Russian strategic partnership.

Instead, in a pique to Moscow and as a part of its decade-old penetration into the Central Asian republics formerly ruled by the old Soviet Union, China has recently intensified its energy cooperation with one of Russia's growing economic rivals for domination in the post-Soviet economic space: Kazakhstan. The Chinese government has set its eyes on the vast Kazakh Karachagansk gas fields and is sponsoring the construction

of a 3,000 km Kazakh-Chinese gas pipeline as a more cost-efficient and reliable alternative to Russian supplies. In addition, at the Kazakh-Chinese summit in May 2004, Beijing reportedly promised to pay \$2.5-\$3 billion for the construction of a 1,000 km oil pipeline from Atasu in Western Kazakhstan to Alashankou in western China. Oil and gas from Kazakhstan, a newly discovered "friend and good neighbor," appear to better satisfy China's increasing thirst for fuel than from the energy resources from its "reluctant" strategic partner, Russia.

"Rather difficult negotiations" with China (as described by Maxim Medvedkov, deputy minister at the Russian Ministry of Economic Development and Trade [MEDT]) over Russia's accession to the World Trade Organization (WTO) pose another challenge to the stumbling trade relationship. In 2002, China's Ministry of Commerce began to use the WTO-authorized anti-dumping investigations and imposed protectionist measures against leading Russian manufacturers of the goods that constitute the foundation of Russian exports to China—cold-rolled steel and chemical products. These sanctions allegedly cost Russian businesses, like the Magnitogorsk Metallurgy Combine, hundreds of millions of U.S. dollars in lost revenues and noticeably reduced their market shares in China. Obviously, Russia strenuously objected to such a unilateral way (i.e., outside the mutually agreed-upon framework of bilateral intergovernmental commission on trade dispute resolution) of reducing Beijing's trade deficit with Moscow, but the Russian MEDT is reluctant to impose retaliatory sanctions because "Russia cannot afford waging a trade war with the second largest economy in the world," as Medvedkov put it.

Furthermore, despite Chinese leaders' repeated official statements that they welcome Russia's immediate accession to the WTO and will extend whatever assistance necessary to accomplish this, in several rounds of protracted intergovernmental talks, Beijing set forth conditions unacceptable to Moscow. For instance, Russia refuses to grant the visa-free access for Chinese labor (including the so-called "shuttle traders") to the Russian labor markets, which raises the specter of the uncontrolled Chinese demographic expansion in Siberia and the RFE. Russia also protested China's demands regarding the liberalization of timber industry and automobile imports.

Both countries recognize that Russia's admission to the WTO would be an important step in ensuring stable and predictable conditions for mutual trade. The problem, according to some Russian liberals, is that Beijing seems to feel that it had to endure too much from the West and sacrifice a lot in its own accession talks. That is why now it has the "moral right" to recoup those initial losses at the expense of another latecomer, Russia. As one Russian trade negotiator put it, "There is no pity for the weak in the Chinese soul that respects only power." Repeating the mantra of strategic partnership alone will not help Russian oligarchs enter the WTO on the back of the Chinese mandarins.

In sum, the Sino-Russian "reluctant" economic partnership combines the elements of mutual dissatisfaction and lack of complete trust on one hand, and a shared understanding of mutual economic dependencies—especially in the border areas of Siberia and the Far East—and the need to find mutually acceptable solutions within the framework of the 2001 basic treaty and extensive bilateral intergovernmental consultation mechanism on the other hand. The "breakthrough" economic diplomacy failed to produce meaningful results in the 1990s, whereas a more conservative "small steps" approach in the 2000s did generate some progress in bilateral trade. Still, it is very difficult to match China's exploding demand for energy, food, fresh water, and other natural resources with Russia's own desire for development and security.

CONCLUSION:

"Hu and Pu" and Uncle Sam: Balancing Between Conditional Accommodation and Equidistance

Since September 11, 2001, Beijing and Moscow have witnessed the emergence of the United States as a new Central Asian great power and the expansion of the North Atlantic Treaty Organization's (NATO) security commitments through the German, British, and Turkish military presence in Afghanistan to the northwestern frontiers of China and southwestern frontiers of Russia. In their hot pursuit of the global fight against international terrorism and search for new energy supplies in Central Asia, both the United States and NATO came right to the Sino-Russian border, establishing a bridgehead in China's northwestern rear and Russia's southwestern rear in what previously used to be their strategic backyard and an America-free zone. As the United States encircled China and engaged Russia from three directions, both Beijing and Moscow can no longer consider the security of their respective eastern and western fronts without the assessment of the U.S. strategic plans in Central Asia. The growing U.S. military and economic presence in Central Asia, without doubt, raised new security concerns and created a new incentive for Russia and China to seek closer bilateral cooperation within the framework of their strategic partnership and the SCO on their Central Asian frontiers.

At present, neither China nor Russia is willing or able to reject or check American global activism. The post-September 11 global balance of power and perceived threat environment compel them to move to conditional accommodation of U.S. policies and interests in their respective strategic spheres of influence and areas of their national security and economic concerns. As their respective ties with Washington gradually improve, they might find themselves pursuing a parallel policy of de facto equidistance vis-à-vis the United States and each other. American actions always loom large in the background of Sino-Russian strategic interaction from joint antiterrorist collaboration against radical Islamic separatism and extremism in Central Asia and its environs to unswerving solidarity on the Taiwan issue; conditional acceptance of the U.S. military presence and nuclear nonproliferation concerns on the Korean peninsula and in Japan; cautious acquiescence to the growing U.S. power in Central Asia; lukewarm opposition to the escalating threat of controlled nuclear proliferation emanating from India and Pakistan; and to persistent criticism of the U.S. policies in Iraq, Iran, Afghanistan, and the Middle East. Moscow and Beijing increasingly fine-tune their strategic partnership with each other in accordance with the prevailing winds of their own paramount strategic cooperation with the United States, thereby satisfying most of all their selfish national interests at the expense of their respective strategic partner and competitor alike.